Appropriate Intercarrier Compensation Reform Is Essential

Rural Alliance

CC Docket No. 01-92

Long-Term Replacement USF is Essential for Rate of Return (ROR) ICC Reform

- The price tag of the reform must be clearly identified
- Policy makers must agree that long-term replacement revenues are a necessary precondition to any ICC rate reductions
- The question is will the FCC add additional money for High Cost funding and if so how much – the Rural Alliance plan minimizes the level that is necessary while the Coalition plan significantly increases the cost
  - If the FCC will increase funding sufficiently then it should proceed with responsible ICC reform
  - If not, the FCC should not and cannot proceed

Objectives For Reform

- Recognize distinctions applicable to ROR rural ILECs. These ILECS:
  - Have done a "commendable job" of deploying broadband
  - Rely heavily on originating and terminating access revenues to
    - Maintain and deploy quality broadband capable networks
    - Provide quality basic and advanced services at affordable rates
    - Meet debt service and interest payments. (Network upgrades are often financed with long term debt from RUS or other rural lenders.)
  - Develop embedded cost based interstate switched access rates
  - Are generally subject to State Commission oversight and rate regulation, including state access rates
  - Are dependent on large carriers for interconnected access to the nationwide network
  - Are dependent on large carriers for middle-mile and backbone transport

Objectives For Reform

- Retain the principle that the carrier with the customer's retail relationship is responsible for paying for its own costs and for compensating all other carriers whose network facilities are used to originate, transport and/or terminate the customers call
  - Maintain tariffed access rates and structure
  - Maintain the ability to charge for the use of the network based on tariffed rates
    - Small rural ROR ILECs do not have the resources or negotiating power to base access rates on "commercial negotiations"
    - As long as traffic originates and terminates on the PSTN, embedded cost based access rates are appropriate and critical
    - For rural ILECs, reducing terminating ICC to .0007 doesn't cover billing costs let alone the costs of the network and could jeopardize broadband deployment and significantly increase customer rates
    - Eliminating originating ICC are dangerous to rural consumers and will halt deployment of broadband
    - A solution that balances ICC and USF reform is critical

Objectives For Reform

- Rate arbitrage should be minimized to the extent possible
  - A one size fits all "uniform" terminating rate is not appropriate or necessary for addressing arbitrage
  - For rural ILECs, a unified interstate and intrastate access rate will significantly address rate avoidance or arbitrage
  - Changes must consider not only terminating, but also originating access - both are subject to avoidance and arbitrage
  - Changes must provide the ability to recover lost access revenues through
    - Increases to an affordable benchmark, or imputation of an increase
    - A sufficient and sustainable Restructure Mechanism for the balance
  - All carriers using the network in a similar manner should be required to pay the same access rates for the facilities utilized

Objectives For Reform

- Jurisdictional Issues Must Be Resolved
  - Reform must be implemented in a legal manner - Intrastate reform should be voluntary
  - The jurisdictional responsibility of States must be considered and respected when changes involving state access rates are developed
  - A reasonable and affordable benchmark that considers competitive alternatives should be implemented to insure local rate equity among states
  - Reform should deal with and resolve contentious issues that are being litigated state by state.

Simplified, but Comprehensive Reform

- For Rural ROR ILECs
  - State access rates and structure should mirror interstate, with revenue shortfall recovered from a Restructure Mechanism and Federal Benchmark Mechanism – as an interim step
    - Voluntary on a state by state basis – up to rural ROR ILECs and State Commissions to initiate
    - Implement for both originating and terminating rates - both are subject to bypass and arbitrage
    - Benchmark rate level should be set at a level that is affordable and considers competitive alternatives.
      - A reasonable rural level is $25 over a reasonable transition
      - The test for comparison to a benchmark should be the residential rate plus mandatory EAS additives plus the SLC plus any **state USF contribution per line**
  - The Restructure Mechanism should be calculated at the beginning of any transitional access rate reduction and phased in as state access rates are phased down
    - This approach would generate a Restructure Mechanism of approximately $800M based on prior Missoula Plan analysis

Simplified, but Comprehensive Reform

- For Rural ROR ILECs, cap interstate switched access rates and transfer cost based shortfall to USF mechanism
  - If interstate access minutes continue to decline, will maintain ROR ILEC cost recovery without interstate access rate increase
  - Minimal USF effect - see NTCA July 11, 2008, CC Docket 01-92 filing
- Implement comprehensive phantom traffic solution proposed by Missoula supporters and in NECA petition
- Require payment for network use - Adopt Embarq petition (forbear from enforcing ESP exemption on IP traffic; VoIP pay access rates for traffic terminating on PSTN)

Simplified, but Comprehensive Reform

- Adopt and enforce changes that will resolve interconnection disputes:
  - Rural ILECs have no responsibility for transport beyond their service area
  - Compensation for IntraMTA traffic based on carrier's local calling area
- When the cap on CETCs is eliminated, eliminate the cap on the High Cost Loop Fund
  - Prior to that change, this fund should be resized
  - The ongoing procedures to update the fund size should be simplified by eliminating the loop calculation and simply basing the update on inflation

Simplified, but Comprehensive Reform

- The preceding changes for intercarrier compensation should be adopted for Rural ROR ILECs and will recognize the unique circumstances of those carriers. These changes will:
  - Maintain the revenues necessary to recover rural ROR ILEC costs. Those revenues are essential for maintaining and paying for rural network costs already in place and for continuing to fund upgrades to that network. That network provides quality basic and advanced services at just, reasonable and affordable rates for all customers in the ILECs service area.
  - Ensure that all carriers and services using the rural ILEC network pay for that use. This will not only ensure competitive equity among carriers providing services, but will provide additional revenues that will reduce universal service funding requirements.
  - Ensure equity among states and respect the jurisdiction of State Commissions.

Comprehensive Reform

- As it has in the past, the Rural Alliance **opposes** intercarrier compensation changes for rural ROR ILECs that:
  - Would eliminate the access charge regime and require all traffic to be compensated at reciprocal compensation levels for transport and termination through "commercial agreements"
    - Under this "theory", originating access would be eliminated, rural ROR ILECs would be forced to pay transiting and termination charges for another carriers traffic, and would have to negotiate "commercial agreements" to determine rates even though the rural ROR ILEC has no negotiating power.
    - Would significantly increase the price of the Restructure Mechanism
  - Establishes intercarrier rate levels for access that are unreasonably low and are not grounded in rural ROR ILEC costs
  - Does not deal with all access elements that are subject to bypass and arbitrage (i.e. originating)
  - Does not appropriately deal with jurisdictional responsibilities